

**SOUTH CAROLINA
OFFICE OF THE SECRETARY OF STATE
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2017



INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 15, 2017

The Honorable Mark Hammond, Secretary of State
South Carolina Office of the Secretary of State
1205 Pendleton Street, Suite 525
Columbia, South Carolina 29201

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Office of the Secretary of State (the Office), solely to assist you in evaluating the systems, processes and behaviors of the Office for the fiscal year ended June 30, 2017. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 for the purpose of which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors of the Office. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Office has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions inspected were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

The Honorable Mark Hammond, Secretary of State
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December 15, 2017

This report is intended solely for the information and use of the management of the Office and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in blue ink that reads "George L. Kennedy, III". The signature is written in a cursive style with a large, stylized "G" and "K".

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor

Agreed - Upon Procedures Related to the South Carolina Office of the Secretary of State (E08)

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations over \$50,000 and 10% for the General Fund, and \$20,000 and 10% for the Earmarked Fund.
2. Randomly select twenty-five cash receipt transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Appropriations Act Proviso 117.1.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select twenty-five cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.
4. Randomly select five reconciliations to confirm that the revenue reported in the Office's system match the amount reported in SCEIS for the given period and compare the amount of revenue to the corresponding journal entry.
5. Inspect Office general ledger records to ensure compliance with South Carolina Code of Laws Section 33-56-160.
6. Inspect Office documents and procedures to ensure the accountability and security of templates for documents, certificates and certified letters issued for money.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

7. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$20,000 and 10% for the General Fund, and \$25,000 and 10% for the Earmarked Fund.
8. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Office procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Office procedures and good business practice are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Office, properly coded to the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
 - Clerical accuracy / confirm proper sales/use tax.

Cash Disbursements/Non-Payroll Expenditures (Continued)

9. Randomly select ten non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

10. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$20,000 and 10% for the General Fund, and \$25,000 and 10% for the Earmarked Fund.

11. Randomly select five employees and inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Office.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Office.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

12. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Office's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
13. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Office's policies and procedures, that the employee's last pay check was properly calculated, and that the employee's leave payout was properly calculated in accordance with applicable State law.
14. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes of +/- 10%.
15. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of changes of +/- 10%.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

16. Randomly select five journal entries and transfers for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Appropriation Act

17. Inspect the Appropriation Act work program, provided to and completed by management, noting areas of noncompliance, if any.
18. Confirm compliance with Office-specific state provisos by inquiring with management and observing supporting documentation.

We found no exceptions as a result of the procedures.

Reporting Packages

19. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General. Inspect the Master Reporting Package Checklist to determine the appropriation reporting packages were prepared and submitted by the due date by CG's Policies and Procedures Manual.
20. In addition to the procedures above, we will perform the following:
 - Capital Assets Reporting Package
 - Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, SCEIS Yearend Reporting – Assets History Sheet, and/or Office prepared records. Haphazardly select five assets to inspect for proper recording of amount and useful life in SCEIS.
 - Litigation Reporting Package
 - Determine if the Office had approval from the Attorney General's Office to hire attorneys and to ensure proper coding of legal and attorney payments based on inspection of the SCEIS general ledger and the Yearend Reporting – Litigation Expense. Haphazardly select five transactions to inspect for proper approval, amounts charged, and service date range.
 - Subsequent Events Reporting Package
 - Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Office prepared records. In addition, inspect all payables from the Subsequent Events Accounts Payable Worksheet and confirm the amounts are properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

We found no exceptions as a result of the procedures.

Composite Reservoir Accounts

21. Obtain a listing of Office composite reservoir accounts from Office management and confirm that the list is complete.
22. Obtain fiscal year monthly reconciliations for each composite reservoir account and for three haphazardly selected reconciliations, perform the following procedures:
 - Determine the selected reconciliations were timely performed and properly documented in accordance with applicable State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.

Composite Reservoir Accounts (Continued)

- Obtain a reconciliation of applicable composite reservoir account balances to the liability for assets held in custody for others and determine mathematical accuracy.
- Agree the reconciled balance of the liability for assets held in custody for others per the reconciliation to the general ledger.

23. Inspect five composite reservoir account transactions to determine that they were properly described and classified in the accounting records in accordance with the Office's policies and procedures and applicable State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.

We found no exceptions as a result of the procedures.

Status of Prior Findings

24. Through inquiry and inspection, determine if the Office has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We found no exceptions as a result of the procedures.